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rived at with Germany must be inevitably reflected in the United States, since we are now taking far too great a part in the economic organization of the world not to be affected by whatever happens in the dealings between Germany, France, Great Britain and the others concerned. This country has put up probably fifteen billion dollars since the European conflict began, counting governmental credits and private commercial advances, and if unsound principles underly the indemnity agreement it will mean that the depreciation of values in the United States will make it necessary for us to pay this sum twice over.

What ought to be done is to keep

the entire matter as much a domestic problem for Germany as possible. Prosperity begets prosperity, just as depression contaminates its neighbors like a rotten apple in a barrel. The world can not be prosperous unless economic peace reigns in Europe, and Europe can not approach such a peace until Germany is normally at work. Without the restoration of Europe it is hopeless to expect any decisive return to the fully employed condition of industry in this country that Americans would like to see. Therefore, whatever decisions are arrived at in the next conference on the indemnity should receive much more active attention in this country than has characterized any of the discussions so far held.

The Principal Factors to Be Considered in Connection with the Cancellation of the European Indebtedness to the United States

By C. E. McGuire

Washington, D. C.

THE Ministries of Finance of the world have had to conduct their inventories of national financial resources in recent years under conditions of exceptional difficulty, and the official reports even of some of the larger countries, to say nothing of those whose sovereignty has only lately been recognized, have not been published and made available as early as usual. But the budgetary speeches have had to be made, and these, together with official memoranda such as were filed at the Financial Conference in Brussels (September 23 to October 8, 1920), have furnished some material for quasi-official reports, for the publications of public and private banking institutions and for numerous studies of individual students of public and

private credit. While I shall not have occasion, from the very nature of the considerations that I am advancing here, to present any exhaustive series of quotations from this material, I believe I may fairly say that an official source can readily be pointed out for all the figures which I have occasion to give,—a source in no case confidential, but, on the contrary, available to any who could have occasion to consult it.

With a view to approach the subject in an orderly way, let me first indicate the amount and origin of the indebtedness. Then it will be proper to discuss the economic significance of this indebtedness, its relation to the stability of governments and to the orderly conduct of business throughout

the world, and the alternatives of policy which the world is facing.

It is clear, of course, that in so short a time we can not analyze budgets, or attempt to show in detail the alarming proportion of public revenue still being devoted to preparations for war. We are concerned with what is to be done with the cost of past wars, and, in a very general way, with the way in which the nations are going to be safeguarded from further unrestrained preparation for war. Moreover, the few figures I shall submit are not extreme; still deeper colors could be used in a more detailed study.

THE BRITISH DEBT

The British National Debt, funded and unfunded, is declared in parliamentary papers (Cmd. 1024, 1920, and Return 240, December 15, 1920) to have stood on March 31, 1920 at £7,828,779,095, an amount greater than the debt as it stood March 31, 1919, by £397,126,574. But the British Government has certain obligations additional to its funded and unfunded debt (*pp. 10-13 of Cmd. 1024*), which amounted on March 31, 1920 to £46,862,866. The aggregate gross liabilities of Britain were calculated at £7,875,641,961. Converted at \$4.86, this sum would represent approximately thirty-eight and a third billion dollars; but if converted at something like recent sterling exchange rates (say \$3.75), it would represent approximately twenty-nine and one-half billion dollars. The figures, not all official, for the current fiscal year (until March 31, 1921), indicate that the burden is steadily growing heavier. The *Statist* (December 18, 1920) estimates the gross liabilities of Britain as £7,881,893,000, and it is known that the floating debt is increasing. On March 31, 1920, the floating debt was £1,312,205,000; on December 31,

£1,408,081,000. Furthermore, none of the figures accessible take account of the enormous aggregate of claims against the British Government—claims of every description, and in every stage of formulation and validation, railroad and shipping claims, prize court claims, and property claims. While the total value of these liabilities will not have to be provided at a given or an early date, they constitute, none the less, an appreciable drain on the British national finances.

Against these liabilities there are recorded, in addition to the potential wealth of the nation, some assets calculated with precision to reach £106,023,346, and consisting of (1) shares in various corporations, (2) shares in the Suez Canal, and (3) French and Indian obligations. Other assets amount to £700,000,000, and consist of: (1) advances to the Colonies, Allied Powers, and the like, and (2) surplus stores, ships, and other war supplies. From time to time, of course, parliamentary debates disclose certain details in reference to these advances and other assets; and treasury statements frequently submit itemized figures. A fairly recent one is shown on page 292.

On May 19, 1920, the Chancellor of the Exchequer stated that the indebtedness of France to England was in the neighborhood of £500,000,000. On November 23, 1920, it was stated that Serbia had been lent £21,000,000 during the war and £1,500,000 since the war, for which that country undertook to deliver obligations bearing 5 per cent and 6 per cent, respectively. The figure of £700,000,000 is assumed on a basis of a very low realization on the loans (with their par values of £1,850,500,000) and low prices for war material. During the nine months ending December 31, 1920, the government received £199,907,733 for surplus war stores, but

not much more is expected to be sold.

The total receipts of the British Treasury (taxation, short term notes, and all other sources) for the nine months from April 1 to December 31, 1920, were £5,136,361,498, as against

£5,382,539,454 for the period from April 1 to December 31, 1919. In order to meet the budget estimates, £529,496,272 have yet to be collected in the current quarter (January-March, 1921). Ordinary expenditures

LOANS TO ALLIES AND DOMINIONS
(Million £)

	<i>Advances during Financial Year 1918-19</i>	<i>Advances during Financial Year 1919-20</i>	<i>Total Advances from August 1914 to March 31, 1920</i>
Dominions.....	-23	-15½	119½
Allies.....	236	163	1,731
Total.....	<u>213</u>	<u>111½</u>	<u>1,850½</u>

LIABILITIES
(Million £)

	August 1, 1914	March 31, 1917	March 31, 1920
Funded Debt.....	588	318	315
<i>Unfunded Debt:</i>			
Term Annuities.....	30	24	19
3½% War Stock.....	....	63	63
4½% War Stock.....	....	20	13
4 and 5% War Stock.....	....	1,962	2,041
National War Bonds.....	....	....	1,477
4% Funding Loan.....	....	....	409
4% Victory Bonds.....	....	....	360
Treasury Bonds.....	....	....	....
Treasury Bills*.....	15	464	1,059
Exchequer Bonds.....	20	320	319
National Savings Certificates.....	....	74	275
War Expenditure Certificates.....	....	24	....
Other Debt.....	....	317	1,229
American Loan.....	....	51	51
Temporary Advances.....	1	217	205
	654	3,854	7,835
Other Capital Liabilities.....	57	53	47
Total Liabilities.....	711	3,907	7,882

*Excluding bills held as collateral for loans payable abroad and included in external debts.

chargeable against the period from April 1 to December 31, 1920, reached £842,689,719, as compared with £1,225,980,718 for 1919.

The obligations of the British Government due to foreign governments appear to be those held by the Government of the United States, stated at \$4,212,835,992 on March 31, 1920, in the British Treasury report, and at \$4,196,838,358.44 of principal, and \$314,582,824.97 of interest, on November 15, 1920, in the annual report of the Secretary of the Treasury of the United States for 1920 (*pp. 54-58*); by the Canadian Government, \$181,000,000; by the Argentine Government, 96,000,000 pesos gold; by the Uruguayan Government, 23,800,000 pesos gold; by the Japanese Government, 96,000,000 yen; and, finally, by various other governments,—some of which are described as "allied" and others as governments of British colonies,—the total of the obligations in this last group amounting to approximately £122,000,000 at par.

With the large amount of indebtedness to individual citizens rather than governments of other countries, we are not concerned. The magnitude of these obligations of England to private persons abroad may be estimated from a statement by the Chancellor of the Exchequer on December 20, 1920, as to the sums maturing for payment abroad in the years 1921-1923:

In 1921, \$20,850,000 worth of 3 months Treasury Bills in the United States; 50,000,000 yen worth of Japanese 12 months Treasury Bills; \$100,000,000, Canadian Bankers' Loan; 12,500,000 Swedish Kroner; \$28,590,000 of Japanese Treasury Bills repayable in United States Currency; and finally, \$129,048,000 of 5 year notes issued in United States; in 1922, \$95,000,000 worth of 3 year notes in United States, and \$40,000,000 of Canadian Bankers' Loan.

It may be noted in passing that the

only payments on debts to foreign governments mentioned as contemplated in the same years are \$121,500,000 to the United States Government for silver purchase (under the so-called Pitman Act), 30,000,000 gold pesos to Argentina, and £538,000 to the Government of Mauritius.

I have referred to the indefiniteness of official statements as to the amount of the obligations to Great Britain of other countries. It would seem as if, within a year after the war, the British system of accounts,—the best in Europe, if not in the world,—could have analyzed and digested all these foreign variable assets. But in England as elsewhere the reparations negotiations have left many figures much in doubt. The British Treasury report as of March 31, 1921, will clear up the character, date of receipt and application of the payments to Great Britain by Germany under the Treaty of Versailles. I find Mr. Chamberlain reporting in November:

Under the Reparation Clauses of the Treaty of Versailles, this country has been allotted up to the present time 158 ex-German steamers. Of these, 52 steamers of 257,847 gross tonnage in all have been sold for £4,991,625. This country has also received under the Reparation Clauses 1,000 tons of dyestuffs of the value of marks 40,613,600. Under the Financial Clauses the Army of Occupation has received in cash Marks 346,000,000 and in kind, accommodation and transport. Under the Economic Clauses this country has received up to the present £4,627,356.12s. 8d in settlement of monthly debit balances between the Germans and British Clearing Offices. The Reparation Commission have not yet fixed the sterling equivalent of the sums in marks referred to above.

The financial experts in England have not been blind to the seriousness of the condition of the national credit. Naturally they have not always been

successful in persuading those in control of public policy to follow their financial plans, although it must be said that Chancellor McKenna resolutely set out to impose taxes that would produce large returns. His successors, however, have appeared to drift along depending on short term financing, apparently seeking to avoid the further aggravation of economic disturbance which they think would be entailed by any thoroughgoing, drastic policy of taxation. It must not be inferred that taxation in England is in any way light. The *Statist* estimates (December 11, 1920) that the British Government in 1920-1921 is taking £30½ of the per capita national income of £112½ as against £4½ of £50 in 1912-1913.

National Income . . . 1913	£2,250,000,000
Government " "	200,000,000
National Income . . . 1920	5,000,000,000
Government " "	1,400,000,000

But it must be noted that of the estimated revenues for 1920-1921, £1,418,300,000 (*London Economist*, October 20, 1920) more than one-fifth (£310,756,000) is classified as special receipts emanating from numerous sources other than taxation.

A discussion of the effect on British commercial banking and investment banking conditions of this serious situation of the general credit of the country would be interesting, but as we have yet to consider some other countries and then take up the question of the disposition of the debts owed to the United States, I can only call to your attention such a significant fact as that the total new capital subscriptions for the calendar year 1920 are reported by the *Bankers Magazine* at £367,000,000 against £1,036,000,-000 in 1919; and relatively little of the 1920 amount was destined elsewhere than within England itself. To one

detail, however, I must draw your attention; namely, the debasement of the subsidiary coinage of England. All during the winter of 1919-20 this plan was discussed, and even the fall in the price of silver did not alter the determination to reduce the fineness of British silver coin from .925 to .500. The Chancellor announced at the end of December that the silver circulation of the Kingdom amounts to £60,000,-000. Of this new coinage, £7,000,000 has been minted.

THE FRENCH DEBT

The balance sheets of France, Italy, and Germany make mournful reading. France is reported to have had on September 30, 1920, a national debt of 285,836,000,000 francs. The foreign debt aggregates 83,273 millions, and in part consists of half a billion pounds owed to England (payable in sterling as reported March 31, 1920), and \$2,966,028,443 (payable in dollars) owed to the government of the United States (as reported November 15, 1920).

French deficits had been accumulating before the war, and the government was only then beginning to make headway against them by resorting to an income tax. Actual use of this source of revenue was deferred until 1916 and has never been as searching as might have fairly been expected. The government income fell from five billion francs in 1913 to 3,800,000,000 francs in 1915, rising to 6,300,000,000 in 1917 and 6,500,000,000 in 1918.

Mr. Klotz states ("Situation financière de la France," in *Revue Economique Internationale*, November, 1920) that the current fiscal year would yield the following kinds and amounts of income:

	Francs
Taxation	17,500,000,000
Short Term Treasury	
Notes	14,000,000,000

Long Term Treasury Notes	11,500,000,000
Advances from the Bank of France.....	200,000,000
	<hr/>
	43,200,000,000

After reviewing the other assets of France, and fervently reechoing the Anglo-French declaration of March, 1918,¹ Mr. Klotz declares that France is assured of recovering her advances to her allies, which he calculates as 8,873,000,000 francs in cash and credit, and 6,925,000,000 francs in supplies. The program of "réparation intégrale" vigorously championed by Mr. Klotz and many others, is calculated to yield in the course of time more than 200,000,000,000 francs. Of this, some 136,000,000,000 francs are calculated by Mr. Louis Dubois to represent the aggregate property damages (the balance being, broadly speaking, personal damages). Able French statisticians, René Pupin and E. Michel (in the *Journal de la Société de Statistique de Paris*, January, 1921) discuss the real extent of the property damage, and while we have no time to analyze their methods and results, it is interesting to find that the "co-efficient of reconstruction" today is not less than four, which applied to the *total replacement* value (as distinguished from intrinsic and other statistical values) of all the property in the ten devastated provinces of France in 1914, calculated by Michel as 33,000,000,000 francs, would give us 132,000,000,000 francs.

The budget as submitted for 1921 but not yet approved, contemplates expenditures of 44,287,000,000 francs and ordinary and extraordinary receipts of 24,963,000,000 francs—it being intended to recover sixteen and a

¹ "The obligations of Russia remain; they must be met, and shall be met by the new state, or collection of new states which may now or later represent Russia."

half billion francs from Germany, now or later, in installments, the unpaid balance to bear interest, and France herself to issue bonds to cover the deficit, which will be guaranteed by the German payments.

It was recently reported (December 31, 1920) that the French 6 per cent national loan had yielded 27,000,000,000 francs of which 10,384,606,000 francs were new money.

The per capita figures in the *Statist* (December 11, 1920) show that of an estimated national per capita income of 3,200 francs in 1920 (as against one of 960 in 1913) the government was getting 574 (as against 129 in 1913). Taxation can perhaps sink more deeply in France than would seem to be the case if these estimates hold; but the economic balance sheet of the nation is not revealed by them alone. The ominous mass of banknotes, and of *bons de la défense nationale* and *obligations de la défense nationale* seems almost indigestible.

THE ITALIAN DEBT

The Italian debt to the United States was stated by the Secretary of the Treasury as \$1,631,338,986.99 on November 15, 1920. Italy's total national debt converted at par appears to be equal to about \$18,330,000,000. Of this, apart from the amount due to the United States, about 13½ billion lire represented pre-war debt, 34 billions the war loans, 24 billions the floating indebtedness and banknotes issued on state account.

While revenues were increasing in 1920, the deficit appears to be as formidable as ever, due largely to coal and wheat costs. Let me again cite the *Statist* in connection with the per capita taxation. In 1913, the Italian Government collected 65 lire of the national per capita income of 580, while in 1920, it took 276 lire from the

estimated national per capita income of 2,175 lire.

THE GERMAN DEBT

The German national debt now exceeds three hundred thousand million marks (M. 318,000,000,000, on December 31, 1920). The floating debt is now increasing at the rate of six billion marks a month; on December 31, 1920, it had reached M. 152,727,180,000 (there is an official British estimate in report of the Department of Overseas Trade of as high as M. 197,000,000,-000); and the ordinary daily receipts are now far below the interest on the floating debt alone. The total paper currency issued exceeded M. 77,000,-000,000 (November 25, 1920); of this amount, the note circulation of the Reichsbank is reported on January 12, at M. 65,958,442,000 as against a gold reserve hardly one-sixtieth as large.

The character of the German situation becomes still more appalling when we recall that these figures do not embrace the results of the operations of the German and British clearing houses; nor do they account for compensation to be paid to Germans by their own government under the Versailles Treaty for such deliveries of ships, machinery, horses, war supplies, and the like,—payments which some

courageous German statistician measures as worth M. 131,000,000,000. Finally, the Supreme Council has heaped Ossa on Pelion with aggregate payments of M. 226,000,000,000, and an indefinite 12 per cent exports tax.

Germany's deficit during the present financial year can not fall inside of M. 70,000,000,000. This appears from the following official figures, of which the British Department of Overseas Trade says, "there can be no reasonable ground for not accepting them at present."

In addition, it is estimated that the states and communities, which require M. 15,750,000,000, will be able by local taxation, to raise M. 15,370,000,-000.

Time does not permit any analysis of the expedients recommended to soak up this colossal indebtedness. The capital levy, it is now proposed, will be realized to the extent of 33½ per cent by August 1, 1921. Not long since, the President of the Reichsbank advocated the introduction of a forced loan, which might yield M. 15,000,-000,000.

DEBTS OF OTHER FOREIGN COUNTRIES

The Polish State Loan Bank reports (December 31, 1920) issues of 49,361,-483,439 Polish marks, and seems to be

Expenditures

M. 51,000,000,000	Expenditure, Ordinary and Extraordinary.
41,000,000,000	" Armies of Occupation, Commissions, and Deliveries under Versailles Treaty.
18,000,000,000	Postal and Railroad Deficits.
110,000,000,000	
(9,000,000,000)	Transferable to the States).
101,200,000,000	Expenditure of the German Empire.

Revenues (Aggregate Taxation)

M. 36,970,000,000	For the Empire; of this 9,400,000,000 go to the States; leaving
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27,570,000,000 for the National Expenditures.

increasing them at the rate of 4,500,-000,000 marks a month. Of its own gold it held 7,660,590; of gold belonging to the Treasury of Poland, it held M. 4,750,000; of foreign currency, M. 162,150,000; and it has lent to the Polish Government M. 59,625,000,000. Poland's domestic debt had reached M. 40,000,000,000 in September, according to its delegates' reports at the Brussels Financial Conference, while its foreign debt to France, England and the United States is said to exceed \$600,000,000. The Secretary of the Treasury reports (1920, pp. 66-67) that he holds (as custodian) obligations of Poland received from the Secretaries of War and the Navy, for surplus war supplies, amounting to nearly \$60,000,-000.

Czecho Slovakia has a national debt of 40,000,000,000 kronen, some of which is the Bohemian share of the Austro-Hungarian debt. To the United States, Bohemia owes \$61,256,206 for direct advances and \$20,600,000 for surplus war supplies. Her note circulation, as reported at Brussels, exceeded 10,500,000,000 kronen with no gold in reserve.

The Roumanian delegates at Brussels announced a national debt roughly equivalent to \$4,100,000,000 (at par). It appears that on November 15, 1920, Roumania owed the United States \$23,206,820. Her note circulation exceeds ten billion lei.

Our interest at the moment does not require that we should, even in this hasty way, consider the outstanding figures of the other countries of Europe, Asia, Belgium (with her estimated deficit of 4,500,000,000 francs in the budget for 1921), the Kingdom of the Serbs, Croats, and Slovenes, or Greece, to say nothing of Russia. Nor is there time or occasion for separate study of colonial finance. The financial fortunes of Egypt, for instance,

are inextricably bound up with those of England, all the gold of Egypt having been absorbed by London, and its place taken by British war securities; Egypt's cotton crop is sold to Milan, Barcelona and New England through England, and a further flood of paper currency based on British securities, is let loose in Egypt. So it is with India to some extent, and with France and the French colonies and protectorates.

Japan has a less unsound situation in the matter of public credit than any of the other great powers except the United States; although more satisfaction could be derived from this fact if the condition of Japanese private credit (due to unstable commodity markets) were less overcast. On December 27, 1920, Japan's specie holdings were reported (*Japan Gazette* of January 7, 1921) as 2,183,000,000 yen, of which 310,000,000 yen are likely to be required on foreign account, but some 500,000,000 yen are on deposit abroad (chiefly in the United States) to the credit of Japanese private banks. Japanese ordinary revenues for 1920 were expected to meet about 80 per cent of the ordinary expenditures.

INCREDIBLE SIZE OF DEBTS

Certain fundamental things will occur immediately to our minds. The national debts of the world are of incredible size. Any attempt to calculate them involves the use of figures that formerly were used only by statisticians when they speculated on the extent of national wealth. The currencies of the world are being increased in volume in an alarming way. A short time ago the National City Bank of New York estimated that the ratio of gold reserves to outstanding government paper currency had fallen from 66 per cent, where it stood in July, 1914, to 18 per cent in November,

1918, to $13\frac{1}{2}$ per cent in December, 1919, down to 9 per cent in December, 1920. These figures do not take account of Russia since 1917. It was already apparent, even before the Brussels Financial Conference, that three out of four nations of the world had frankly to reconcile themselves to the abandonment of the gold standard and to redouble their efforts to meet constantly increasing government deficits.

It is stated at various places in the report of the Secretary of the Treasury for 1920 and most conveniently on page 106, that the securities acquired by the Treasury under authority of the Liberty Bond Acts aggregate \$9,445,000,000. The securities, of which the Treasury Department is custodian and which are held on account of sales of war supplies, amount to \$563,000,000, while those received from the Relief Administration amount to \$84,000,000. The total foreign securities held by the government on November 15, were reported as \$10,092,054,122.73. This amount represents 91 per cent of all the securities owned by the government, the other 9 per cent comprising capital stock of war emergency corporations, railroad securities and capital stock and bonds of the land banks.

METHODS OF REDUCTION BY LAW

With the methods carefully determined by Congress for the reduction of the indebtedness of the United States, I assume that all are familiar. It is conveniently summarized on page 113 of the Report of the Secretary of the Treasury for 1920. A cumulative sinking fund was established under the Victory Liberty Loan Act and became effective July 1, 1920. This provision permanently appropriates for the current fiscal year and each fiscal year thereafter until the debt is discharged,

"an amount equal to $2\frac{1}{2}$ per cent of the aggregate amount of the bonds and notes outstanding July 1, 1920, less an amount equal to the par amount of any obligations of foreign governments held by the United States on that date, plus the interest which would have been payable during the fiscal year for which the appropriation is made on the bonds and notes purchased, redeemed or paid out of the sinking fund during such year or in previous years."

Inasmuch as nineteen and one-half billion dollars worth of liberty bonds and victory notes were outstanding on July 1, and the par amount of the obligations of foreign governments purchased under the loan acts and held at that time was, as heretofore stated, nine billion four hundred forty-five million dollars, it appears that the difference, that is the amount intended to be amortized from this sinking fund, is ten billion one hundred thirty-six million dollars. Now $2\frac{1}{2}$ per cent of this is \$253,404,000. It has been calculated that an average interest payment of something like \$432,000,000 a year will be required in addition to the fixed appropriation to extinguish the indebtedness in twenty-five years, thus reaching an average aggregate payment of \$685,000,000 for some twenty-five to twenty-eight years.

Any repayment of the principal of the foreign obligation has to be applied to the retirement of the liberty bonds and victory notes (Section 3, First Liberty Bond Act, Section 3, Second Liberty Bond Act). Repayments were made to an amount of \$114,000,000 up to November 15, 1920, and this amount was applied to the purchase of liberty bonds having a par value of \$119,000,000.

In a letter of the Secretary of the Treasury to the chairman of the Committee on Ways and Means of the

House of Representatives in December, 1919 (Annual Report, 1920, p. 59) it was stated that the interest on the aggregate obligations purchased under the war loan acts amounts to \$475,000,000 a year. It was then proposed by the Treasury to defer the collection of the interest for the present until the debtor nations were in a position to assume the burden.

During the fall of 1920 and until the present time, so far as any announcement has been made, the negotiations looking to the deferment of interest collection have not been completed. The Secretary of the Treasury now (in his Annual Report for 1920, p. 61) proposes a method for the consideration of Congress and possibly as a tentative basis of discussion with the European governments.

It appears that some such plan will be worked out as was proposed in Secretary Glass' letter to Chairman Fordney for the disposition of the interest at the present time, while sooner or later negotiations will have to be engaged in on the larger plan now proposed by Secretary Houston for the funding of principal and interest. Possibly the temporary plan will take the form of permitting the deferment of interest for several years and its payment thereafter in installments together with the interest regularly accruing. But in any event, it is going to be a long time before the governments of Europe are able to meet the aggregate interest payments, to say nothing of amortization charges. Not even the most comfortably fixed can face this gigantic burden anywhere in the near future.

WARTIME CREDIT REQUIREMENTS

For purposes of war the needs of government always outrun its resources. Invariably there has been an almost immediate resort to the

appropriation—today we call it “mobilization,”—of private resources. With due regard for the inviolability of individual interests, but determined to secure and exercise effectively the control of credit, the governments of the world in the last seven years have drawn heavily upon the popular confidence in what sovereignty can do, in their effort to turn to public uses, as variously conceived, all the resources, tangible or intangible, within reach. As we have seen, unlimited quantities of currency have been issued, which has depreciated in many instances to the rating of indeterminate promissory notes, and for this currency and other obligations the governments have in a certain sense sought an endorsement on the part of the public; that is, they have sought an expression of public confidence in the validity of government credit, in securities of relatively long term which represent, among other things, an effort to stabilize the earning power of credit throughout all foreseeable exigencies until a day may come when fiat currency may have been redeemed, or when, in other words, the factors of abundant production, facile means of distribution and tranquil public feeling as to the future, may again clearly be discerned at work.

It has been sufficiently set forth what a burden the indebtedness of sovereign states constitutes at the present time. No time has been available to estimate the extent to which this burden has been increased by local indebtedness, for, after all, local indebtedness is apt substantially to represent investment in the machinery of production and in things that facilitate the elaboration of goods and the effective and economical rendering of services. I do not wish to imply a doubt as to the value of the indebtedness incurred by sovereign states, but, as I have indicated, most of it has to do with war and the pre-

arations for war. In giving some per capita figures I do not wish to have it inferred that one can judge the real weight of the debt of sovereign states by per capita estimates. Those who know conditions in some of the countries of this hemisphere and of Asia, as well as those of Europe, know how inconclusive a measure of economic strength we may find in per capita figures of indebtedness, circulation and the like.

INTERNATIONAL INDEBTEDNESS

The economic significance of the international indebtedness is greater than its proportion to the total national debts. Whatever a sovereign state may do with its domestic debt, it is the accepted theory that it must handle its foreign obligations with the greatest punctuality and with complete fulfillment of all conditions. Inability, punctually and fully, to meet their foreign obligations has made it exceedingly difficult for the governments of western Europe to take any measures which would effectively win back public confidence, neutralize the unfavorable influences affecting the exchanges, and assure encouragement of production and the smooth operation of the processes of distribution.

I do not believe that all the financial trouble experienced in the last few years, of which the course of the exchanges is but one index, is attributable exclusively to the existence of this mass of international indebtedness. Naturally there has been an immense amount of readjustment necessary in the settling-down process after so wild a struggle as the one we have experienced. Artificial forces of every description were brought into play to control and manipulate, to force, to retard, to concentrate, and to divert all the processes of production, and these forces have in turn stimulated the

instinct of the speculator and befogged the landmarks of the person of average prudence and responsibility. A great deal, both material and spiritual, was torn loose from its moorings and sent down-stream to take its chances in the ice jam. And it can not be too frequently emphasized that no one formula could be expected to solve all the problems now crowding on the world.

Nevertheless, I am convinced that the problem which calls for solution first is the one which affects the general attitude towards the state. The popular confidence in the state has everywhere been shaken. This is natural. It is a formal reaction from the imperious absorption of all activities and powers by the state, and the ruthless subordination of every interest to the national policy, as, for the time being, the authorities interpret it.

But it is one thing to resent and challenge *l'étatisme*, the theory of the omnipotent government, and quite another to become so demoralized in the face of the forbidding aftermath of war as to lose all assurance in the maintenance of civil order, and the reasonable stability of fiscal policy long enough to bridge a single harvest. The business communities in Europe today have no knowledge of what is ahead of them; they are fearful of the governments, however much they detest the intolerable interference with their lives the governments have now come to practice. The building up of a reasonably strong volume of private credit is retarded by the universal preoccupation as to the impending disasters in public finance, with further uncontrolled inflation of currency as the only medication. It is the dreadful recourse, each day more frequent and violent, to the use of opiates. Private business is going on surprisingly briskly, and bank balance sheets are roseate;

but the burden of taxation, the cost of the effort to maintain garish standards of living, and above all the sinking purchasing power of currencies, are shadows overhanging everything.

Whether people attempt to think it out or not, they are much worried as to the integrity of the national credit. We instinctively and, as we believe, loyally try to preserve intact the nominal value of any contractual consideration, even though real values may shrink tremendously. We do not wish to see any formal impairment of public securities, and least of all an official admission of bankruptcy. Yet that is undoubtedly what lies ahead of many European governments. Some have drawn nearer to it than others. Beyond bankruptcy we do not care to look. The process of physical rehabilitation is painful enough; the reconstruction of nations and of an entire cultural phase in the world's history is the work of centuries. There are those who say that nations have in other times survived terrible burdens, and that it was never possible to meet all obligations given in war time when they came due, although all such obligations have subsequently been honored, and the hardship survived.

It is true that mankind has a way of living through war, pestilence and enslavement. Is it true, however, that only by such convulsions and agony we can move forward? Is our theory of progress to be one of biological determinism, and are we to build our future on successive mounds and ruins? Surely it is not necessary that everything we have in our entire social order should be further tested by the fire in order to see how much of it is to be preserved! It seems as if there might be a healthy minority, at least, willing to do business on some other theory of life.

POLICY OF THE UNITED STATES

We are now squarely confronted by the problem of the policy of the United States. This money Europe owes us seems an enormous amount; in comparison with the national debts, and even the aggregate international obligations, it is not so large. But its importance is paramount. We can use it to infuse new self-confidence and vigor in the torpid, half-drugged sovereignties, and immediately enable them to inspire all who have to do business with them with renewed confidence in their ultimate recovery and normal functioning. We hold a key. If we demand payment, not all the expedients they can contrive will avail; and the shriveled purchasing power of their currencies will grow more and more feeble. We can relieve them if we will. If we do not, we can not have been the gainers, for our debtors will either have been driven into some action still more costly in character than the remission of the debts, or they will have become officially bankrupt.

I am aware that the people of this country generally expect the foreign indebtedness to be paid off, and that it will be no easy task to face them with the assurance that its payment can not reasonably be expected in the lifetime of the present generation, and that it will be expecting very much to count upon any person now living ever seeing the day when all the deferred interest alone will have been paid up. But they must be faced with the fact, and they may as well be faced with it before 1945, when they will presumably have amortized that portion of our own domestic debts which exceeds the foreign obligations, for they will then have to begin amortizing that portion which it is contemplated to amortize with the proceeds of the foreign debts.

After all, I believe that the people

of this country would be willing to face this additional burden, if they have before them a resolute and well-considered program formulated by the administration and intended to relieve the world as a whole from the spectre of further preparations for war and at the same time alleviate the situation in Europe. If the United States will take the lead and formulate such a program, laying it before the leading nations, our government may count upon having behind it the weight of popular approval, not only in this country but throughout all the little nations in the world, all of whose peoples are sadly depressed by the anxiety which they feel when they witness the demoralization of the great nations which, after all, control the prosperity of the world.

As I contemplate the necessity of resolution and the adoption of some plan rather than reliance upon a policy of drift, I am led to quote a remark by Lord Loreburn in his penetrating study entitled *How the War Came* (p. 175):

A strong prompt decision by each State as to the course it proposed to steer and an immediate announcement of that course, where an antagonist was about in ignorance to thwart it, or as a friend was about to commit some error which would run counter to it—these, surely, are necessary in the management of any kind of controversial business.

TWO ALTERNATIVES

As I see it, there are really two broad alternatives facing the world today; of course, I am speaking of general and philosophical tendencies rather than detailed and particular cases. The nations may continue to cultivate the theory of unlimited state sovereignty and encourage the further development of the means for its maintenance. They may continue to calculate on all

possible combinations, military and financial, with which any of them might at any time be confronted, and prepare to resist such combinations. They may emphasize still more strongly the nationalistic theory of self-sufficiency and economic independence, the control of strategic materials and needs of communication, and proceed to abrogate all economic laws in the superior interest of national sovereignty. They may elaborate an economic and military policy intended to disprove and defy the principles on which the material world seems to be constructed. For the United States in particular, this formula is an inviting one by reason of our immense resources, our geographical position and the relation we now bear to the rest of the civilized world. We can arm to the teeth and be prepared to meet any possible combination which might be formed against us, either by all our debtors or by any group of them; and meanwhile we can salvage such of their movable property as can be without too great difficulty attached and brought under our own physical control. We can then fold our arms and look on while they "stew in their own juice." Indeed, it is not so long since that a man remarked to me that he thought Europe ought to be let pay the penalty for the corruption of its civilization, and that we should offer no help, either by way of remission of debt or by extension of material assistance, but stand aside and permit decay to set in and nature to take its course.

But the trouble with this alternative is that it overlooks the fact that the entire world is more or less of a piece, and that what goes on in Europe or even in one or the other end of Europe, can not but have a repercussion in this country. It does not take account of our dependence upon the existence of general tranquillity in the world and a

state of confidence and assurance that a reasonable degree of public order will be maintained while private business is being transacted. Only the self-sufficient village community can live in such idea-tight bliss. At the very moment that such a policy were determined and the measures begun to give it effect, the signs of weakness would be discernible as a result of the effect on us of the economic breakdown and political chaos in Europe. That breakdown has come in some quarters, and is barely being held off in others. Unfortunately, this first alternative is the one more readily taken up in times like these, when idealistic hopes which took but little account perhaps of realities have been disappointed and reactions of cynicism and disillusionment set in. It is a period of impatience and ill-temper, when loose thinking is common, and resolute, steadfast courses unpopular.

Broadly speaking, the other alternative involves the adoption by the leading nations of a reasonable policy of coöperation, looking to gradual disarmament, and agreement on the fundamental principles.

Any plan laid before the other governments must involve economic elements, matters in the domain of international law and certain political and moral considerations, all of which are vital factors in the peace of the world. It must embrace a genuine cessation of military and naval preparation, not necessarily the scrapping of fleets, aircraft, or fortifications, but the declaration of what is commonly known as a "holiday" in construction of these means of offense and defense, and the immediate acquisition of all enterprises for the construction of armament and military munitions by the several states. The reasonably rapid reduction of military and naval personnel, no matter how the state has to

provide for the men released, is another indispensable element in any plan of restriction of the preparations for war. In the domain of international law there should be agreement in principle (to be carried out later in detailed conventions) as to the outlawry of the use of chemical warfare; the abandonment of reprisals in any and all circumstances; the acceptance of the inviolability of merchant craft; possibly, also, the automatic action of neutral governments to bring about an effective blockade of belligerency wherever it appears without dispute as to who is the aggressor. After all, the thing which needs to be quarantined is the state of belligerency.

OTHER SETTLEMENTS

There are certain other settlements which must be regarded as essential to the peace of the world, not only now, but for the future. For instance, a determined and patient effort on the part of our government would go far towards settling by international convention the question of protection of racial minorities wherever they exist, so far as this problem can be solved otherwise than by the exercise of real understanding and human charity.

I also feel that the extension of the good offices of the United States Government at the time that it were to initiate the other negotiations necessary to the successful carrying out of this plan of cancellation of war indebtedness on the basis of *quid pro quo*, would make it easy for the Government of England gracefully to recognize the right of those who reject her offer of partnership in empire, peacefully and unmolested to withdraw. England would thus secure a friendly neighbor who would be willing undoubtedly to shoulder a just proportion of the British war debt if permitted to go in peace, and who would also be as willing to

renounce the ambitions and burdens of empire as all the other little nations have been willing to abandon them in order to win the precious spiritual treasure of self-direction. An independent Ireland would be as little concerned with the imperial projects of larger nations as either of the Low Countries after their emergence from centuries of attempted assimilation by their neighbors.

CONCLUSIONS

Possibly no recapitulation is of any use after such a survey of the question as I have had to make, but I venture to point out the chief considerations that I have set down.

1. The European countries are unable at the present time to pay interest on their debts, or undertake the amortization of their debts; and it will be years before they can begin to pay the interest currently due, to say nothing of arrears of interest.

2. It would be hardly possible, or at any rate, exceedingly difficult, for those countries to make head against their other obligations if their indebtedness to the United States were cancelled; while these obligations to the United States stand, the European governments are forced to continue absorbing private credit, already dangerously near exhaustion, for public use.

3. Relief from the burden of these debts, whether payable on demand or after twenty years, would enable the European countries (1) to come nearer to balancing their ordinary budgets, (2) to stabilize their fiscal programs long enough to enable capital to be invested with some assurance, business to be set going, and industry to revive, and (3) to begin the long and tedious return journey to convertibility of their currencies.

4. Cancellation by the United States of the debts owed by European coun-

tries on account of war credits or European relief would naturally be welcomed by the European peoples and governments; they would, of course, prefer that such cancellation be unconditional.

5. Finding that at present unconditional cancellation can hardly be secured, the European countries will decide that they must make the best of the situation, bring about as rapidly as possible the transformation of their demand notes held by the United States Government into 15-25 year bonds with funding of interest, and having been granted this respite, address themselves to (1), domestic adjustment and (2), the cultivation in the United States of a public sentiment friendly to unconditional cancellation.

6. So bad is the situation of the European countries, however, that they could not, and would not, refuse any reasonable conditions imposed by the United States upon the gradual cancellation of the debts; the instant relief to their fiscal maladies would be worth any bearable sacrifice.

7. All the more would the European countries be willing to accept conditional cancellation, if the conditions laid down by the government of the United States were clearly for their further relief from the burdens of war; while the national dignity in each case would be consoled with the argument that the process was world-wide.

8. This war has frightfully mortgaged the future. Are not signs everywhere discernible that people are going not merely to chafe under the burden, but to question the utility of our political, economic and social system, or even of our sacrosanct ideas of sovereignty itself? If this is to be the outcome, there is not going to be much of our foreign debt paid to us, unless we put a lien on everything our debtors possess, movable and immovable, and

have plenty of physical force in reserve to make the lien good.

9. Somehow, no doubt, the race will survive if any or all the governments of Europe collapse. The United States may become, either by design or as residuary legatee, the foremost imperial state in the world, vigorously pushing forward a program of economic penetration through this hemisphere, and financial leadership in the world. Nevertheless, many new ideas may be set loose under the pressure of economic forces, and we may yet be brought to a period of exhaustion and stagnation as profound as that which overtook the classical world of Asia and our own western classical antiquity. Is it possible that we are incapable even of imagining, if not of effectuating, an alternative to this sacrifice?

If, therefore, it would seem that the

United States will never receive any appreciable portion of the debts arising from the war, that the existence of these debts is an aggravation of economic distress and a temptation to desperate measures, and that their cancellation on any reasonable terms could be made of great service to the whole world, then it would follow that the dictates of prudence and self-preservation, no less than the principles of sound business policy, counsel us to determine the program of general and specific action we desire the European countries to take, and lay it before each of them directly and formally, its acceptance to constitute the indispensable condition to the commitment of this country to a program of gradual cancellation of all the European debts except those arising from the sale of surplus war materials.